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Susanne R. Young, Secretary

December 2, 2019

Rep. Johnson, Speaker of the House
Sen. Ashe, President Pro Tempore
Vermont State House
115 State Street
Montpelier, VT 05633-0004

Re: 2019 Education Tax Rate Forecast

Dear Speaker Johnson and President Pro Tempore Ashe:

Attached you will find the annual letter from the Commissioner of the Vermont Department of Taxes. As you know, the Commissioner, after consultation with the Agency of Education, the Secretary of Administration and the Joint Fiscal Office, is required by 32 V.S.A. § 5402b to annually calculate and forecast a property dollar equivalent yield, an income dollar equivalent yield, and a non-homestead tax rate.

One of the key performance indicators we use to measure how effectively State government is helping to make Vermont more affordable for families is the percent of household income (HHI) spent on state taxes and fees. It is our view that if the percent of a household's income captured by government is increasing, government is having a regressive economic impact on households. The fact that projected education cost increases continue to exceed the rate of growth in education fund revenues – and the rate of growth in household income – remains a cause for significant concern, particularly as the number of students in Vermont's schools continue to decline.

This is why the Governor devoted much time and attention to this challenge in his first legislative biennium. As you no doubt recall, there was a great deal of conversation around the structural sources of the ongoing tax pressures, including health care costs. One of the bigger pressures on education spending for FY21 is the cost of health care for district employees. Of the expected \$72 million increase in the education payment, about \$28 million would cover local school districts' portions of premium increases. That figure won't be finally determined until the conclusion of the negotiations of a statewide teachers' health benefit.

To be clear, the Governor supports increasing education spending where we can demonstrate that it yields added value, and equity, for students. Given the state of Vermont's declining student population and performance scores, it's difficult to argue the escalating tax rates do much more than maintain a status quo

of rising costs and growing inequity. We need to work together to ensure the investment Vermonters are making is yielding more equitable opportunities and better outcomes for our kids.

The Governor continues to believe that structural reform is essential to making our education system better for kids, and more affordable for taxpayers. We are very open to working with you to address these challenges and making Vermont's education system the very best in the country.

Respectfully,



Susanne Young

Secretary of Administration



State of Vermont
Department of Taxes
133 State Street
Montpelier, VT 05633-1401

Agency of Administration

December 2, 2019

Rep. Johnson, Speaker of the House
Sen. Ashe, President Pro Tempore
Vermont State House
115 State Street
Montpelier, VT 05633-0004

Dear Speaker Johnson and President Pro Tempore Ashe:

The Commissioner of the Vermont Department of Taxes, after consultation with the Agency of Education, the Secretary of Administration and the Joint Fiscal Office, is required by 32 V.S.A. § 5402b to calculate and forecast a property dollar equivalent yield, an income dollar equivalent yield, and a nonhomestead tax rate annually. This letter is submitted in fulfillment of the statutory obligation. The Department of Taxes, Department of Finance and Management, Agency of Education, and the Joint Fiscal Office prepared consensus forecasts on various components of the Education Fund Operating Statement for Fiscal Year (FY)2021 so that the required analysis could be performed. Many thanks go to the exceptional staff who performed this essential work.

5402b(a)(2) Mandated Forecast

In the statutorily mandated calculation and recommendation under 32 V.S.A. 5402b, the Commissioner must assume the following¹:

1. The homestead base tax rate is \$1.00 per \$100.00 of equalized education property value;
2. The applicable percentage under 32 V.S.A. 6066(a)(2) is 2.0;
3. The statutory reserves under 16 V.S.A. § 4026 are maintained at five percent; and
4. The percentage change in the average education tax bill applied to homestead property, nonhomestead property, and taxpayers who claim a property tax credit is the same.

¹ And for FY21, "the Commissioner shall disregard any undesignated surplus in the Education Fund" (Act 46, 2019)

Applying these statutory assumptions, the yields and non-homestead rate in the table below would support all forecasted FY21 education fund uses and maintain the statutory reserves under 16 V.S.A. §4026 at five percent. Additionally, the percentage change in the average bills for non-homestead property, homestead property, and those who claim a credit² under 32 V.S.A. §6066(a) are projected to be equal under these yields and nonhomestead rate.

Homestead Yields and NH Rate	FY2020 (for comparison)	FY2021
Homestead Property	\$10,648	\$10,883
Income	\$13,081	\$13,396
Nonhomestead Property	\$1.594	\$1.654

Average Rates

If the forecasted yields and rate in this letter were adopted, the average 2020-2021 (FY2021) equalized property tax rates would be as follows:

	FY2020 (for comparison)	FY2021
Homestead Property	\$1.512	\$1.567
Income	2.47%	2.55%
Nonhomestead Property	\$1.594	\$1.654

These rate increases, in conjunction with forecast appreciation in property value and growth in income, would lead to an average increase of more than 6% in education property taxes for all payers.

Education Spending Growth

Total education spending is forecast to grow while the number of pupils continues to decline. On a per-pupil basis, the expected growth in spending is forecast to be 5.53% on average.

	FY2020 (for comparison)	FY2021	Rate of Growth
Total Education Spending (\$Millions) ³	\$1,426.1	\$1,497.6	5.01%
Equalized Pupil Count ⁴	87,839	87,412	-.49%
Average Equalized Per Pupil Spending	\$16,235	\$17,133	5.53%

² Those who claim a credit will pay FY21 taxes based on their 2020 household income

³ Projected total education spending for property tax rate purposes as defined by 16 V.S.A. § 4001 (6)

⁴ "Equalized pupils" is a weighted number. Actual student enrollment is lower

Other Considerations

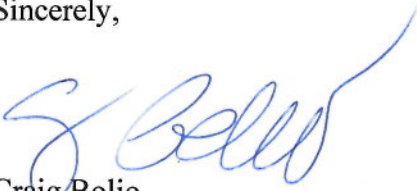
This forecast is calculated as prescribed in statute with the information available to date. There are always variables, concerns and opportunities to consider when we look beyond the prescribed forecast above. We face a challenging landscape for FY21, and I hope the following points will provide policymakers and voters information to make their best decision:

- Per pupil spending is what determines homestead tax rates, not total spending. Locally voted spending amounts are still the primary determinant of a town's tax rate. The more per pupil spending goes up, the more tax rates will go up.
- Virtually all taxpayers in a town will experience an increase on their FY21 bills if the town's education property tax rates go up versus the current year. Even taxpayers who receive a property tax credit the following year would experience property tax rate increases from higher school spending because an increase in per pupil spending increases the income percentage taxpayers are expected to pay before a property tax credit is applied.
- If all districts could restrain budget growth to about 1.4% cumulatively (1.9% per pupil), average statewide rates could stay the same as the current year. Average tax bills would still increase 2.16% under that scenario due to rising proper values and incomes. The yields going up mean that a single (small) district could increase per pupil spending by 2.2% and have the same equalized (before the common level of appraisal⁵ is applied to a town) tax rate as the current year even if all other districts increase per pupil spending by the forecasted 5.53%.
- Penny rule of thumb for FY21: One penny on the tax rate translates to \$20 on a \$200,000 house and one penny on both homestead and nonhomestead rates raises about \$8.7M. Roughly 2/3rds of residents pay based on income, and absent intervention, their rates move proportionally with property rates.

⁵ The CLA is the measure of how close a municipality's local appraisals are to the actual Fair Market Value. The CLA is used to equalize education taxes statewide with the goal of having properties of equal value pay equal amounts of school taxes.

The 6% forecasted growth in education property tax is almost double the expected grand list growth of 3% and more than double the expected income growth of 2.5%. If these forecasted yields are ultimately adopted, it would result in the largest education property tax increase in the past 10 years. However, while the forecast is concerning, it is not inevitable. In the 2017 letter, the FY19 rates were forecasted to increase by over 9 cents, but school districts passed budgets that helped the state avoid such a significant increase. There is work ahead for all of us to help get Vermont on a more sustainable path, and this Administration is ready to work collaboratively with you to make our education system both more efficient and more valuable and equitable for our children.

Sincerely,



Craig Bolio
Acting Commissioner, Department of Taxes

cc: Susanne Young, Secretary, Agency of Administration
Daniel French, Secretary, Agency of Education
Adam Greshin, Commissioner, Department of Finance and Management
Rep. Janet Ancel
Sen. Ann Cummings
Rep. Kathryn Webb
Sen. Philip Baruth
Stephen Klein, Joint Fiscal Office
Luke Martland, Legislative Council